

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name LeRoy Community Library	County Osceola
Fiscal Year End 6-30-06	Opinion Date 11-8-06	Date Audit Report Submitted to State December 5, 2006	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  - ☒ ☐ The local unit has adopted a budget for all required funds.
  - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
  - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
  - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  - ☐ ☒ The local unit is free of repeated comments from previous years.
  - ☒ ☐ The audit opinion is UNQUALIFIED.
  - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
  - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.		Telephone Number 231-775-9789	
Street Address 134 West Harris Street		City Cadillac	State MI
		Zip 49601	
Authorizing CPA Signature 	Printed Name Steven C. Arends, C.P.A.		License Number 1101013211

**LEROY COMMUNITY LIBRARY**

**LEROY, MICHIGAN**

**YEAR ENDED JUNE 30, 2006**

LEROY COMMUNITY LIBRARY  
LEROY, MICHIGAN

ANNUAL FINANCIAL REPORT  
YEAR ENDED JUNE 30, 2006

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*Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

November 8, 2006

## INDEPENDENT AUDITORS' REPORT

To The Members of the Board  
LeRoy Community Library  
LeRoy, Michigan

We have audited the accompanying financial statements of the governmental activities of LeRoy Community Library, LeRoy, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the LeRoy Community Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of LeRoy Community Library as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages iii through vi and 15, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the LeRoy Community Library's basic financial statements. The accompanying financial information listed as "Other Information" in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements, and in our opinion, it is fairly stated in all material respects in relation to the financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

LEROY COMMUNITY LIBRARY  
LEROY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

LeRoy Community Library, a Public Library located in LeRoy, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the LeRoy Community Library's administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: Fund financial statements and government-wide financial statements.

**A. Fund Financial Statements**

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

**B. Government-wide Financial Statements**

The government-wide financial statements, required by GASB 34, are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Library's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

**C. Summary of Net Assets**

The following schedule summarizes the net assets at June 30, 2006:

**Assets**

Current Assets	<u>\$143,277</u>
Non Current Assets	
Capital Assets	\$104,420
Less Accumulated Depreciation	<u>(38,800)</u>
Total Non Current Assets	65,620
Total Assets	<u><u>\$208,897</u></u>

**Liabilities**

Current Liabilities	<u>\$ 1,616</u>
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**Net Assets**

Invested in Capital Assets	\$ 65,620
Unrestricted	<u>141,661</u>
Total Net Assets	<u><u>\$207,281</u></u>
Total Liabilities and Net Assets	<u><u>\$208,897</u></u>

LEROY COMMUNITY LIBRARY  
LEROY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

**D. Analysis of Financial Position**

During the fiscal year ended June 30, 2006, the Library's net assets decreased by \$(8,276). A few of the more significant factors affecting net assets during the year are discussed below:

**1. Depreciation Expense**

GASB 34 requires Libraries to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2006, \$5,314 was recorded for depreciation expense.

**2. Capital Outlay Acquisitions**

For the fiscal year ended June 30, 2006, no expenditures were capitalized and recorded as assets of the Library.

The net effect of the current year's depreciation is a decrease to capital assets in the amount of \$(5,314) for the fiscal year ended June 30, 2006.

**E. Results of Operations**

For the fiscal year ended June 30, 2006, the results of operations were:

	<u>Amount</u>	<u>% of Total</u>
<b>General Revenues</b>		
State Grants	\$ 36,471	96.29%
Interest and Rents	492	1.30%
Other Revenues	<u>496</u>	<u>1.31%</u>
Total General Revenues	<u>\$ 37,459</u>	<u>98.90%</u>
<b>Program Revenues</b>		
Charges for Services	<u>\$ 417</u>	<u>1.10%</u>
Total Revenues	<u>\$ 37,876</u>	<u>100.00%</u>
<b>Expenses</b>		
Recreation and Culture	<u>\$ 46,152</u>	<u>100.00%</u>
Change in Net Assets	<u><u>\$ (8,276)</u></u>	

LEROY COMMUNITY LIBRARY  
LEROY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

**F. Analysis of Significant Revenues**

Significant revenues are discussed below:

**State Grants**

The majority of the state sources are comprised of penal fines received from Osceola County. The Library collected \$33,741 in penal fines for the year ended June 30, 2006.

**G. General Fund Budgetary Highlights**

The Uniform Budget Act of the State of Michigan requires that the Board approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the year on June 30.

For the year ended June 30, 2006, the Library amended the general fund budget in April 2006. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Total Revenues	\$ 30,194	\$ 36,714	\$ 37,876
Total Expenditures	43,580	37,981	40,838

**H. Capital Asset**

**1. Capital Assets**

At June 30, 2006, the Library had \$104,420 in capital assets, including buildings, computer and office equipment, furniture and fixtures, as well as books. Depreciation expense for the year amounted to \$5,314 bringing the accumulated depreciation to \$38,800 as of June 30, 2006.

**I. Factors Bearing on the Library's Future**

At the time that these financial statements were prepared and audited, the Library was aware of the following items that could significantly affect its financial health in the future:

A significant portion of the Library's funding comes from penal fines; any impairment to these funding sources would greatly impact the future of the Library.



LEROY COMMUNITY LIBRARY  
LEROY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

**J. Contacting the Library's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives. If you have questions about this report, please contact the LeRoy Community Library, 104 W. Gilbert Street, PO Box 110, LeRoy, Michigan 49655.

LEROY COMMUNITY LIBRARY  
LEROY, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2006

ASSETS

CURRENT ASSETS

Money Market Account	\$ 11,318
Savings Account	13,702
Certificates of Deposit	<u>118,257</u>
Total Current Assets	<u>\$ 143,277</u>

NON CURRENT ASSETS

Capital Assets	\$ 104,420
Less Accumulated Depreciation	<u>(38,800)</u>
Total Non Current Assets	<u>\$ 65,620</u>

TOTAL ASSETS	<u><u>\$ 208,897</u></u>
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LIABILITIES AND NET ASSETS

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$ 431
Payroll Taxes Payable	<u>1,185</u>
Total Current Liabilities	<u>\$ 1,616</u>

NET ASSETS

Invested in Capital Assets	\$ 65,620
Unrestricted	<u>141,661</u>

Total Net Assets	<u>\$ 207,281</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 208,897</u></u>
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The notes to the financial statements are an integral part of this statement.

LEROY COMMUNITY LIBRARY  
LEROY, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES CHARGES FOR SERVICES	GOVERNMENTAL ACTIVITIES NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
<u>GOVERNMENTAL ACTIVITIES</u>			
Recreation and Culture	\$ 46,152	\$ 417	\$ (45,735)
<u>GENERAL REVENUES</u>			
State Grants			\$ 36,471
Interest and Rents			492
Other Revenues			496
Total General Revenues			\$ 37,459
Change in Net Assets			\$ (8,276)
<u>NET ASSETS</u> - Beginning of Year			215,557
<u>NET ASSETS</u> - End of Year			\$ 207,281

The notes to the financial statements are an integral part of this statement.

LEROY COMMUNITY LIBRARY  
LEROY, MICHIGAN

GENERAL FUND  
BALANCE SHEET

JUNE 30, 2006

ASSETS

Cash	
Money Market Account	\$ 11,318
Savings Account	13,702
Certificates of Deposit	<u>118,257</u>
 TOTAL ASSETS	 \$ <u><u>143,277</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$ 431
Payroll Taxes Payable	<u>1,185</u>
 Total Liabilities	 \$ <u>1,616</u>

FUND BALANCE

Unreserved	
Designated for Scholarships	\$ 13,702
Undesignated	<u>127,959</u>
 Total Fund Balance	 \$ <u>141,661</u>

TOTAL LIABILITIES AND FUND BALANCE	\$ <u><u>143,277</u></u>
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The notes to the financial statements are an integral part of this statement.

LEROY COMMUNITY LIBRARY  
LEROY, MICHIGAN

RECONCILIATION OF BALANCE SHEET OF GENERAL FUND TO NET ASSETS

JUNE 30, 2006

Total General Fund Balance	\$ 141,661
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Amounts reported for governmental activities in the  
statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not  
reported in the funds

The cost of the capital assets is	\$ 104,420	
Accumulated depreciation is	(38,800)	65,620
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NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 207,281</u>
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The notes to the financial statements are an integral part of this statement.

LEROY COMMUNITY LIBRARY

LEROY, MICHIGAN

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2006

REVENUES

State Grants	
Library State Aid	\$ 2,725
Library Penal Fines	
Osceola County	33,746
Interest and Rents	
Interest Earnings	492
Other Revenues	
Copy Charges	417
Memorials/Donations	439
Miscellaneous	57
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Total Revenues	\$ 37,876

EXPENDITURES

Recreation and Culture	
Personal Services	
Librarians	\$ 19,325
Board Members	1,105
Fringe Benefits	
Social Security and Medicare	1,471
Worker's Compensation	277
Supplies	
Books and Magazines	5,943
Office and Other Supplies	1,730
Purchased Services	
Professional Fees	115
Insurance and Bonds	1,219
Utilities	3,779
Repair and Maintenance	3,026
Dues	2,114
Contract Labor	349
Miscellaneous	385
Total Expenditures	<hr/>

Excess (Deficiency) of Revenues Over Expenditures	\$ (2,962)
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<u>FUND BALANCE</u> - Beginning of Year	<hr/> 144,623
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<u>FUND BALANCE</u> - End of Year	<hr/> <hr/> \$ 141,661
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The notes to the financial statements are an integral part of this statement.

LEROY COMMUNITY LIBRARY  
LEROY, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE OF GENERAL FUND TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

Net change in Fund Balance General Fund	\$ (2,962)
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Amounts reported for governmental activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	<u>(5,314)</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (8,276)</u></u>
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The notes to the financial statements are an integral part of this statement.

LEROY COMMUNITY LIBRARY  
LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the LeRoy Community Library have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are described below.

**A. Reporting Entity**

The LeRoy Community Library provides library services to the residents of the LeRoy, Michigan area from its facility located in LeRoy, Michigan. The Library is a legally established district library pursuant to Section 6 of Act 24 of the Public Acts of 1989. The participating municipalities include Cedar Township, LeRoy Township, Lincoln Township, Rose Lake Township, and the Village of LeRoy. The District Library Board is made up of six appointed board members. Under the criteria established by generally accepted accounting principles, the Library has determined that there are no component units which should be included in its reporting entity.

**B. Government-wide and Fund Financial Statements**

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

*Invested in Capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.



LEROY COMMUNITY LIBRARY  
LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Library as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The Library only has a governmental fund called the General Fund.

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

The accounts of the Library are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

**Accrual Method**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

LEROY COMMUNITY LIBRARY  
LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

The Library reports the following major governmental fund:

The General Fund is the primary operating fund of the Library. It is used to account for all financial resources of the Library.

**D. Assets, Liabilities and Equity**

1. Deposits and Investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from date of acquisition.

The Library's investment policy states that the LeRoy Community Library is limited to investments authorized by Act 20 of 1943, as amended, and may invest in the following:

- (a) Certificates of Deposit
- (b) Savings Accounts
- (c) Money Market Accounts

2. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Books	10 years
Building	50 years
Furniture and Fixtures	10 years
Computer and Office Equipment	5 years

LEROY COMMUNITY LIBRARY  
LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

The Library's capitalization policy is to capitalize individual amounts exceeding \$350 and large purchases of books.

3. Compensated Absences

Accumulated unpaid vacation, sick pay and other employee benefit amounts are not accrued in governmental funds (using the modified accrual basis of accounting). The Library does not allow employees to accrue these benefits beyond the end of the fiscal year. Also, upon termination of employment the employee will not be paid for any benefits accrued during the fiscal year.

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

6. Fund Balance

In the financial statements, the unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Reservations of fund balance are for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

**A. Budgetary Information**

The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

LEROY COMMUNITY LIBRARY  
LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

1. The board of directors of the Library annually prepares an operating budget. The operating budget includes proposed expenditures and the means of financing them.
2. The budget is approved by the Library board prior to the start of the fiscal year which it covers.
3. All transfers of budget amounts between accounts within the General Fund must be approved by the Library board.
4. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted in July, 2005, or as amended by the Library board in April, 2006.
5. Budget appropriations lapse at the end of the fiscal year.
6. Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Library because, at present, it is not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

**III. DETAILED NOTES ON GENERAL FUND**

**A. Deposits and Investments**

The Library's deposits are on deposit with Citizens Bank and Fifth Third Bank.

*Investment rate risk.* The Library will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Library's cash requirement.

*Foreign currency risk.* The Library is not authorized to invest in investments, which have this type of risk.

*Credit risk.* The Library will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Library's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Library will do business in accordance with the Library's investment policy.

*Concentration of credit risk.* The Library will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

LEROY COMMUNITY LIBRARY  
LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2006, none of the library's bank balance of \$144,624 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At year end, the Library held no investments.

**B. Capital Assets**

A summary of changes in the Library's capital assets follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Capital assets:				
Building	\$ 65,363	\$ 0	\$ 0	\$ 65,363
Furniture and Fixtures	21,524	0	0	21,524
Computer and Office Equipment	5,931	0	0	5,931
Books	11,602	0	0	11,602
Total Capital Assets	\$ 104,420	\$ 0	\$ 0	\$ 104,420
Less Accumulated Depreciation:				
Building	\$ 17,214	\$ 1,307	\$ 0	\$ 18,521
Furniture and Fixtures	11,158	2,153	0	13,311
Computer and Office Equipment	3,374	694	0	4,068
Books	1,740	1,160	0	2,900
Total Accumulated Depreciation	\$ 33,486	\$ 5,314	\$ 0	\$ 38,800
Net capital assets	\$ 70,934	\$ (5,314)	\$ 0	\$ 65,620

Depreciation expense for the fiscal year ended June 30, 2006 amounted to \$5,314.

**C. Long-Term Debt**

At June 30, 2006, the Library was not obligated for any long-term debt.

LEROY COMMUNITY LIBRARY  
LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

**D. Risk Management**

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters. The Library participates in a pool of municipalities within the State of Michigan for workers' compensation insurance. The Library pays annual premiums to the pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Library has not been informed of any special assessments being required for the current year or previous three prior years.

The Library continued to carry insurance for other risks of loss, including fidelity bonds, liability, property and casualty, crime, and errors and omissions.

LEROY PUBLIC LIBRARY

LEROY, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
State Grants	\$ 29,494	\$ 36,371	\$ 36,471
Interest and Rents	125	93	492
Other Revenues	575	250	913
Total Revenues	\$ 30,194	\$ 36,714	\$ 37,876
<u>EXPENDITURES</u>			
Recreation and Culture			
Personal Services			
Librarians	\$ 18,000	\$ 16,000	\$ 19,325
Board Members	1,100	1,200	1,105
Fringe Benefits			
Social Security and Medicare	5,800	5,900	1,471
Worker's Compensation	0	0	277
Supplies			
Books and Magazines	6,800	4,642	5,943
Office and Other Supplies	1,500	1,047	1,730
Purchased Services			
Professional Fees	0	0	115
Insurance and Bonds	3,600	1,526	1,219
Utilities	3,300	1,921	3,026
Repair and Maintenance	2,000	4,000	3,779
Dues	840	1,200	2,114
Contract Labor	0	0	349
Miscellaneous	640	545	385
Total Expenditures	\$ 43,580	\$ 37,981	\$ 40,838
Excess (Deficiency) of Revenues Over Expenditures	\$ (13,386)	\$ (1,267)	\$ (2,962)
<u>FUND BALANCE</u> - Beginning of Year	19,162	19,162	144,623
<u>FUND BALANCE</u> - End of Year	\$ 5,776	\$ 17,895	\$ 141,661

*Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

November 8, 2006

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Library Board  
LeRoy Community Library  
LeRoy, Michigan

Dear Members of the Board:

We have completed our audit of the financial statements of the LeRoy Community Library and are communicating to you our findings and recommendations for the year ended June 30, 2006.

Budgeting

The expenditures for several activities exceeded the budget. In addition, total expenditures exceeded the budget. In the future, the budget should be amended before the disbursements are made. All budget amendments should be a resolution of the board and recorded in the minutes.

We would like to thank the Board for awarding our firm the audit assignment and thank the Treasurer for her cooperation.

If you have any questions relative to the above comments and recommendations or other areas of your accounting and recordkeeping, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P. C.

*Baird, Cotter & Bishop, P.C.*



M. WAYNE BEATTIE, C.P.A.  
1902 - 1990  
JACK H. BAIRD, C.P.A.  
JERRY L. COTTER, C.P.A.  
DALE D. COTTER, C.P.A.

JOHN H. BISHOP, C.P.A.  
ROBERT V. BEATTIE, C.P.A.  
DOUGLAS P. McMULLEN, C.P.A.  
JOHN F. TAYLOR, C.P.A.  
STEVEN C. ARENDS, C.P.A.  
SCOTT A. HUNTER, C.P.A.  
JONATHAN E. DAMHOF, C.P.A.  
MICHAEL D. COOL, C.P.A.

*Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

November 8, 2006

LETTER OF REPORTABLE CONDITIONS

To the Library Board  
LeRoy Community Library  
LeRoy, Michigan

In planning and performing our audit of the basic financial statements of the LeRoy Community Library for the year ended June 30, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal control. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The relatively small number of people involved in the accounting functions of the Library makes it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*